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R 110753Z MAR 09  
FM AMCONSUL LAGOS  
TO RUEHC/SECSTATE WASHDC 0575  
INFO RUEHUJA/AMEMBASSY ABUJA 0192  
RUEHOR/AMEMBASSY GABORONE 0060  
RUEHZK/ECOWAS COLLECTIVE  
RUCPDO/DEPT OF COMMERCE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEAWJA/DEPT OF JUSTICE WASHDC

UNCLAS SECTION 01 OF 02 LAGOS 000111

SENSITIVE  
SIPDIS

FOR GABORONE PASS PDROUIN  
STATE PASS USAID FOR NFREEMAN, GBERTOLIN  
STATE PASS EXIM FOR JRICHTER, KJACKSON  
STATE PASS OPIC FOR ZHAN, MSTUCKART, JEDWARDS  
STATE PASS TDA FOR LFITTS, PMARIN  
DOC FOR 3317/ITA/OA/KBURRESS  
DOC FOR 3310/USFC/OIO/ANESA/DHARRIS  
DOC FOR USPTO-PAUL SALMON  
TREASURY FOR RHALL, DPETERS

E.O. 12958: N/A  
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SUBJECT: NIGERIA: TELECOM SECTOR TO WEATHER FINANCIAL STORM IN 2009

¶1. (SBU) Summary: Nigeria logs approximately 55 million active GSM lines as of first quarter 2009, up by 13 million new lines from ¶2008. Local mobile operators are cash-strapped given the global credit crunch and are seeking financing and alternative payment schemes from suppliers. Quality in services has suffered due to operators' inability to find funds for new equipment purchases. Chinese suppliers are upping the competition by providing support to local operators and vendors. Despite difficult conditions in the financial market and economic environment, the telecom sector will continue to grow in 2009 given Nigeria's high and inelastic demand for mobile telephone services. End Summary.

#### Nigeria Logs 55 Million GSM Users

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¶2. (U) Raphael Udeogu, Country Manager, Motorola, told EconOff March 3 that there are about 55 million active GSM lines in Nigeria, up from 42.5 million in April 2008. He estimated about one million new GSM lines were added every month in 2008. Udeogu believes Nigeria will log around 80 million GSM lines before the market reaches saturation point; this will happen within two years. However, Udeogu noted that currently about 50 percent of the total GSM line services are double-counted. (Note: Due to the poor quality of services, it is common for many users to have multiple phone lines with various operators. End note) Udeogu argued that the double, if not multiple subscriptions, by each user should not negate the sector's tremendous growth achievement because the average holding time for each service line is still very high, making each subscription line valid. In April 2008, the Nigerian Communication Commission (NCC) announced that Nigeria had invested USD 11.5 billion in the telecommunication sector. Expansion of network, decreasing tariffs due to growing consumer volume, and a widening of access to lower-income customer base all contributed to the sector's exponential growth in 2008, Udeogu added.

#### Local Mobile Operators Cash-Strapped, Seek Alternative Financing and Payment Schemes

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¶3. (SBU) Given the global credit crunch and depreciation of the Naira, local operators are finding it extremely difficult to borrow money from commercial banks to purchase new equipments and expand their operations, Udeogu said. Operators are now asking suppliers such as Motorola for vendor financing and for deferred or extended

payment plans. According to Udeogu, the market is still too risky for vendor financing; as a result, Motorola can only consider financing for older operators such as MTN or Zain.

#### Quality in Services Suffers from Credit Crunch

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¶4. (SBU) Quality in GSM services has declined dramatically in the first quarter of 2009 because local operators, while unable to find funds to purchase new equipments, continue to add new subscribers to their networks, Udeogu intimated. The rate of growth in terms of equipment expansion has not been commensurate with the rate of new subscriber addition. Moreover, Udeogu noted that the Nigerian Communication Commission has relaxed its enforcement on the quality of services in the past year. Telecommunication operators have focused on building subscriber traffic in the past seven years, he contended, and that trend will persist in the near term future.

#### Telecom to Continue Growth in 2009 Despite Economic Downturn

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¶5. (U) Despite the financial crisis and economic downturn, Udeogu strongly believes that the high, inelastic demand for mobile telephone services and Nigeria's cash-based economy will allow the telecom sector to grow in 2009, albeit at a lower rate than those in the previous years. (Note: Fixed line service is extremely unreliable due to dilapidating infrastructure, making mobile phones the only realistic option for communication. End note) In the fourth quarter of 2008 and first quarter of 2009, mobile operators were still adding subscribers. The market is 20 million subscribers

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below saturation point: even if operators were to increase tariffs on GSM services to offset the weakening exchange rate and boost their revenue, consumer demand would not decline, Udeogu projected. Moreover, Nigeria's cash-based economy means money is circulating outside the financial system, and mobile users will continue their subscriptions by buying phone and recharge cards on the street. For Nigerian GSM subscribers, the key is accessibility and quality, not price, Udeogu emphasized.

#### Chinese Suppliers Upping the Competition

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¶6. (SBU) Chinese telecom suppliers are becoming more competitive in the market, Udeogu said. The technologies of their telecom products are getting better, and Chinese suppliers are able to provide a lot of support to local operators and vendors in these economic hard times. Udeogu believes Chinese suppliers have more money to "buy the market" because they are not public companies and, hence, are not accountable to shareholders.

¶7. (SBU) Comment: Rates of new GSM subscription in Nigeria have grown exponentially over the last few years as fixed line telecommunication continues to deteriorate. The telecommunication sector will weather the financial storm due to high unmet demand. However, more investment in telecom infrastructure, particularly in fixed land line, and in rolling telecommunication out to the rural areas remains critical to Nigeria's overall development. End Comment

¶8. (U) This cable has been cleared with Embassy Abuja.

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